

THE GOOD, THE BAD, AND THE UGLY: MY 30 YEARS  
WITH THE COTTON FARM PROGRAM

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The Good, the Bad, and the Ugly: My 30 Years with the Cotton Farm Program. And what an interesting and challenging 30 years it was. Actually, you could change that 30 to 40 if you count the almost 10 years that I have spent as a private consultant on the program since my retirement from USDA in June 1992. Speaking of consultants, I recently saw a definition that said a consultant is someone who takes the watch off your wrist and then tells you the time. I'm thinking of changing my occupational title to something other than consultant. For you economists out there, I also saw that an economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today. Unfortunately that's often how our farm programs turn out. We don't know until next year why the results for this year turned out different from what we thought when we announced the program last year.

Before I go any further, let me make it clear that anything I say today cannot be used against me. If anyone tries to do so, I'll take the 5<sup>th</sup>. Also, you should know up front that I might be just a wee bit biased when it comes to the cotton program. After all, I devoted the major part of my adult life to the program. That said, I believe that we generally had reasonably good programs over most of the 30 years. Yes, admittedly we had some mixed results though this was often more the result of weather and other conditions external to the programs. For some unexplained reason, we just never have been able to figure out what the weather is going to do six months or a year down the road. Program provisions have to be announced months ahead of time based on "normal weather"-- whatever the heck that means. Another factor that can affect the outcome of the program are the minimums and maximums that Congress often writes into the laws. I understand why they put these in--they just don't trust us gol-darned bureaucrats. Even so, these provisions often work against the desired program results. And, another factor, to be perfectly honest, is that sometimes we just didn't have the guts to do what may have been needed.

Over the years we had many advisory committees, study committees, and every other type of committee known to man--some Government and some industry sponsored--studying and making recommendations on every conceivable issue that was ever thought of. We have tried at one time or another virtually every provision that anyone ever came up with. Some worked, some didn't. We have also added provision on top of provision. For example, we now have three different types of import quotas--the regular WTO and NAFTA quotas, the Step 3 special quota, and the spot market price special quota. Are all these needed? Probably not, but once something like this gets in it is all but impossible to get it out. Currently, it looks like they are going to add a counter-cyclical payment on top of the fixed payment. However, because of WTO commitments this one does make some sense. And each new program gets a little more complicated than the previous one. Of course, this means that Neal and I, and many of you continue to be employed, so maybe that is not all bad.

Although the programs have become more complex over the years, the objectives have remained pretty much the same. Basically, the programs attempt to keep production in line with demand and support prices and farm income. By and large they do a reasonably good job of controlling acreage, but not

necessarily production due to the vagaries of weather. They also do a reasonably good job of supporting income but not necessarily prices. And, unfortunately, it is usually at ever increasing Government cost.

I first started to work for ASCS as a county office manager trainee in Texas way back in May 1962. After a year as a trainee, I spent four years as a county office manager in cotton counties in West Texas before coming to the Washington Office in May 1967. I served under six Presidents, nine Secretaries of Agriculture and six Administrators of ASCS. I went through five major reorganizations of ASCS--one almost every time the Administration changed. I had 12 different immediate supervisors. In addition, for many years I had to deal with the likes of Neal Gillen and John Maguire. It's no wonder I'm bald and gray. Seriously though, the cotton industry is very lucky to have guys like Neal and John representing them in Washington.

Looking back, I can identify more than 40 pieces of legislation that I was involved with in one way or another, including 10 major farm bills, 8 during my 30 years with ASCS and 2 since my retirement, counting the current pending one. In addition, there were countless amendments to the legislation and to the regulations. Obviously, I cannot go into much detail otherwise we would be here for a month of Sundays. So, I will just try to hit a few of the highlights.

The cotton program was fairly simple in my early career, consisting of acreage allotments and marketing quotas to control acreage and a loan program to support prices. From this simple program, we gradually evolved over the last 40 years to the complicated programs of today.

In those earlier years, the Government told every cotton farmer the exact acreage down to 0.1 of an acre that could be planted. It was a simple and very effective program in controlling acreage. That is until 1959 when Congress, probably at the behest of the industry, decided to mandate a 16 million acre minimum national allotment.

The Government also, in effect, set the price that the farmer would receive for his cotton because the loan rate in most years was high enough that it set the price. The loan rate in the early years was set at a percentage of the parity price and was often set at 90 or 100 percent of parity. To put that in perspective, if we had a loan rate today set at 100 percent of parity, it would be \$1.60 per pound rather than 51.92 cents per pound.

With loan rates well above world prices, exports lagged and eventually had to be subsidized. Domestic mills had to pay the higher domestic price dictated by the high loan rates. We had a two-price system in effect for a number of years.

With the minimum allotment and high loan rates, most farmers planted as much as they could and maximized their yields in every way that they could. You can guess what happened. Surpluses built up in the late 1950's and early 1960's. By the end of the 1965 marketing year carryover stocks had hit 16.6 million bales--about 14.5 million of which were owned by the Government. We had cotton running out of our ears.

Something had to be done. The same situation also faced wheat. So, Congress, in the spring of 1964, passed a 2-year Cotton-Wheat Act. For cotton, a domestic cotton allotment, about 35 percent smaller than the regular allotment was established for the 1964 and 1965 crops. Farmers who planted within the domestic allotment received a higher support through a direct price support payment. This was the beginning of voluntary programs for reducing cotton production and the beginning of direct payments

for reducing acreage. In addition, payments were made to domestic textile mills to bring the price of cotton used domestically down to the export price thus ending the two-price system.

The Food and Agriculture Act of 1965 followed the 1964 Act. This Act was the beginning of much more market oriented farm programs. The loan rate for cotton was set at 90 percent of the estimated world price for cotton. The rate dropped from 29 cents for the 1965 crop to 21 cents for the 1966 crop with the difference offset by a direct payment to farmers. To qualify for program benefits, farmers had to comply with a land diversion requirement.

This program, assisted by two very bad weather years in 1966 and 1967, eliminated the huge CCC inventory of cotton by the end of the 1970 season. Even so, the program raised some new issues--the direct Treasury cost of the program and the amount of payments going to large producers. Does that sound familiar? That drum is still beating loud today--35 years later.

The Agricultural Act of 1970 established a completely voluntary cotton program by suspending marketing quotas. It also established a cropland set-aside program. The issue of large payments was addressed by the implementation of a \$55,000 payment limitation per person for each program crop.

The Agriculture and Consumer Protection Act of 1973 replaced the 1970 Act. A major feature of this Act was the introduction of target prices. Direct payments were made only when the market price was below the target price during a specified period.

The Food and Agriculture Act of 1977 based deficiency payments on actual plantings rather than on historical allotments--a dramatic change in concept. This change facilitated a major shift in cotton production to the lower cost regions of the West and Southwest.

The Agriculture and Food Act of 1981 was debated and developed under a situation of falling farm income. Surpluses were again accumulating. This eventually led to the implementation of a massive payment-in-kind (PIK) program for the 1983 crop. Talk about a nightmare. This was one but it accomplished its objective. Stocks dropped from 7.8 million bales on August 1, 1983, to 2.7 million on August 1, 1984.

The Food Security Act of 1985 established farm policy for marketing years 1986-90. A major new feature of this Act was the introduction of the marketing loan concept. For the first time, loans could be repaid at less than the loan rate whenever the world price of cotton was determined to be below the loan rate. There was, however, one small problem with this. There wasn't any such thing as a world price for cotton. And Congress, for once, did not give any guidance on how to do it. Want to know why? Because they, like us, didn't have a clue. Guess who got stuck with coming up with one. You guessed it. Yours truly. We got a small group together, discussed every possibility we could think of, talked to everyone who had any knowledge about cotton and, after a month or so, finally decided to base it on the 'A' Index, adjusted to U.S. quality and location. There was also a small problem with that. Cotlook Limited, a private concern in Liverpool, England, puts out the 'A' Index and they were not real keen on the U.S. Government using it for a purpose for which it was not intended. But we sort of--and I stress sort of--worked it out with them by agreeing not to refer to it as the 'A' Index. You will not find the term 'A' Index anywhere in the law or the regulations. Instead we used their definition of the 'A' Index. The same convoluted basic procedure is still in effect today.

If the PIK program was a nightmare, developing the provisions and regulations for the AWP and other '85 Act provisions would rate at least a double nightmare. We spent many a night and weekend on it. There is no telling what the Government telephone bill was during that period.

The level and methods of applying payment limitations were changed in each Act following the 1970 Act. Finally in October 1986, Congress established a new ceiling of \$250,000 on total farm program payments including marketing loan benefits, effective with all 1987 commodity programs. This legislation also included the 3-entity rule. This procedure is still in effect today but, as you know, it is under a barrage of criticism and would be changed under the pending Senate bill.

The Food, Agriculture, Conservation and Trade Act of 1990—notice that even the titles become more complicated--established farm policy for the 5 crop years 1991-95. During development of this legislation, the cotton situation and outlook was dramatically different than during development of the 1985 Act. Cotton stocks were low and domestic use and exports were high. The new Act continued the market-oriented programs authorized by the 1985 Act but included a new 3-step competitive procedure. If the '85 Act was a double nightmare to work out, this one was a triple trying to figure out the Step 2 payment program for mills and exporters. Right about then was when I decided I was going to retire before another farm bill came along.

If they had given Federal employees airline mileage credits back then like they do now, I would be able to fly free for the rest of my life. I spent more time in the air back then than I did at home or in the office. I still get tired just thinking about it. I told people that we finally had the perfect program--we were paying farmers because prices were too low and we were paying domestic mills and exporters because prices were too high.

That completes the farm bill story of my 30 years with the Government but, of course, the story doesn't end there. If you will indulge me a few more minutes, I will briefly talk about the last 10 years.

The Federal Agriculture Improvement and Reform Act of 1996--the so-called FAIR Act--replaced the '90 Act. It was to cover the 1996 through 2002 crops. It has turned out to be not so fair. While it did reform many parts of the farm programs, a combination of factors have resulted in an economic crisis in the agriculture sector during its reign. Congress responded each year with massive additional payments to farmers. The cotton sector has been especially hard hit. The only bright spot for cotton has been the level of exports.

Fortunately some in Congress recognized early on that something had to be done. Even though the 1996 Act extends through the 2002 crops, the House Agriculture Committee, faced with this scenario, started new Farm Bill hearings about 2 years ago. As you know, the House passed H.R.2646 last October 5. It is a 10-year Farm Bill that begins with the 2002 crops. It continues most provisions of the 1996 Act, including fixed payments and adds a counter-cyclical payment program based on target prices.

The Senate also finally passed its version of a new Farm Bill on February 13. It is a 5-year bill that also begins with the 2002 crops. It too continues most provisions of the 1996 Act and also includes a counter-cyclical payment program based on a so-called Income Protection Price. It includes higher loan rates and much more stringent payment limitations which are of great concern to all those in the cotton industry.

The differences between the House and Senate passed versions will have to be resolved by a Conference Committee that is expected to start meeting next week.

I haven't actually identified any "uglies" as yet but three or four stand out in my mind. I'm sure that many of you could add others. I think you could call that nearly 17 million-bale carryover back in the early 60's an ugly. Another was the Billy Sol Estes scandal about that same time. For those younger ones here that may not have heard of Billy Sol, he was a large cotton farmer in West Texas who figured out how to buy and sell cotton allotments long before it was legal to do so. Without going into the details, he did it through the eminent domain procedures. What he did not figure out was how to legally mortgage nonexistent fertilizer tanks. As a result, he spent a few years in the poky. Oh, did I mention that he was from Pecos, Texas, the place where I spent 3-1/2 years as the county office manager? Fortunately I went there about a year after he had been sent up the river and after one county office manager had been fired and the one that succeeded him just failed to show up at work one Monday morning. I must have been out of my mind to take that job but it was a promotion and a challenge. It was also the primary reason I was later asked to come to the Washington office. Another ugly was the Julian Company bankruptcy a few years back. It hurt a lot of people financially. The most recent ugly is the current situation--the low cotton prices and the textile mill problems. If conditions don't improve, I'm told the mill situation could get even more ugly.

Hopefully the conferees will soon reach agreement on a bill that will turn the current situation around.

In closing, can you even imagine what the cotton program would look like 40 years from now if it went through anything like as many changes as have taken place in the last 40 years? I shudder to even think about it. As a matter of fact, just thinking about it has made me decide to fully retire long before the 2002 Act expires.

Thank you for letting me reminisce.